

VILLAGE OF NORTH ADAMS

AUDIT REPORT

FEBRUARY 28, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of North Adams	County Hillsdale
Audit Date 2/28/05	Opinion Date 10/10/05	Date Accountant Report Submitted to State: 10/26/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)			
Street Address	City	State	ZIP
Accountant Signature		Date	

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Bailey, Hodshire & Company, P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of North Adams
North Adams, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of North Adams, as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of North Adams's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of North Adams, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2005, on our consideration of Village of North Adams's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of February 28, 2005.

Village Council
Village of North Adams

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and pages 26 through 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of North Adams basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Bailey, Hodshue & Company PC
Jonesville, Michigan
October 10, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 28, 2005

Introduction

The Governmental Accounting Standards Board (GASB) has developed a standard, Statement No. 34 (GASB 34), to be used by local governments that will change the annual financial report in that it aggregates all government activities into two parts: governmental activities and business-type activities. GASB 34 also requires management to prepare a straightforward Management Discussion and Analysis (MD&A) of their local government's financial health during the past year. The reader should use this analysis along with the annual report to gain a complete picture of the Village of North Adams for the year ended February 28, 2005. The Village will continue to use fund accounting to record revenues and expenditures in accordance with the Michigan chart of accounts.

Financial Highlights

- Net assets is the amount by which the Village's assets exceeded its liabilities. Net assets totaled \$2,472,973 at February 28, 2005. The unrestricted portion of this amount, \$537,817 (22 percent), is available to be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets decreased by \$66,445 (3 percent) as a result of this year's activities. Net assets of the governmental and business-type activities decreased by \$51,469 and \$14,976, respectively.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$374,377, which represents 108 percent of the actual General Fund expenditures for the current year.

Overview of the Financial Statements

The Village's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents additional information. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Village, reporting the Village's operations in more detail than the government-wide financial statements.

Governmental fund statements tell how general government services were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Because this is the first year of this reporting format, a comparative analysis of the basic financial statements was not practicable. Comparative analyses of the basic financial statements will be made in subsequent years.

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 28, 2005

Government-wide Financial Statements

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by the private-sector companies.

Statement of Net Assets - This statement presents information of all of the Village's assets and liabilities, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the Village's financial position as a whole is improving or deteriorating. To assess the overall health of the Village you need to consider additional non-financial factors such as changes in the Village's property tax base and the condition of the Village's capital assets.

Statement of Activities - This reports how the Village's net assets changed during the fiscal year. All current year revenues and expenses are included regardless of when the cash is received or paid. An important purpose of this statement is to show the financial reliance of the Village's distinct activities or functions on revenues provided by the taxpayers.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Village's basic services are included here, such as fire protection, general government, and streets. Property taxes and state shared revenue finance most of these activities.
- *Business-type activities* - The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's sewer system is reported here.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required by State law. The Village Council also establishes other funds to control and manage money for particular purposes (like street maintenance) to show that it is properly using certain revenues (like state grants collected for the street funds). All of the Village's funds can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Most of the Village's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in a reconciling statement that explains the relationship between them.

Budgetary comparison statements are included as required supplementary information for the general fund and major special revenue funds. These statements and schedules demonstrate compliance with the Village's adopted and final revised budget.

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 28, 2005

Proprietary Funds generally report services for which the Village charges customers a fee. There are two types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise Funds are used to report functions presented as business-type activities, while Internal Service Funds primarily service the governmental unit and are included with governmental activities. The Sewer Fund is an Enterprise Fund. The Village does not have an Internal Service Fund. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Village's enterprise funds are the same as its business-type activities but provide more detail and additional information, such as cash flows.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Supplementary Information can be found immediately following the notes to the financial statements. This information includes budgets and actual statements for major governmental funds.

Government-wide Financial Analysis

In accordance with GASB Statement No. 34, for first-time implementers, the Village is not required to restate prior period for the purpose of providing comparative information. However, in future years, when prior year information is available, a comparative analysis of government-wide information will be presented.

As noted earlier, net assets may serve over time as a useful indicator of the Village's financial position. The Village's assets exceeded its liabilities by \$2,472,973 (net assets) at the close of this fiscal year. Net assets at the beginning of the fiscal year totaled \$2,539,418, showing an increase of \$66,445 over the prior year. While the Village reports unrestricted net assets under both governmental and business-type activities, the unrestricted net assets of the business-type activities cannot be used to make up any net asset deficit in governmental activities. The following table provides a summary of the Village's net assets as of February 28, 2005:

NET ASSETS

	Governmental Activities	Business-type Activities	Total Primary Government
Assets			
Current Assets	\$ 393,705	\$ 486,566	\$ 880,271
Noncurrent Assets	<u>628,256</u>	<u>1,688,624</u>	<u>2,316,880</u>
Total Assets	<u>\$ 1,021,961</u>	<u>\$ 2,175,190</u>	<u>\$ 3,197,151</u>
Liabilities			
Current Liabilities	\$ 6,865	\$ 27,313	\$ 34,178
Noncurrent Liabilities	<u>0</u>	<u>690,000</u>	<u>690,000</u>
Total Liabilities	<u>\$ 6,865</u>	<u>\$ 717,313</u>	<u>\$ 724,178</u>

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 28, 2005

Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 628,256	\$ 998,624	\$ 1,626,880
Restricted	0	308,276	308,276
Unrestricted	<u>386,840</u>	<u>150,977</u>	<u>537,817</u>
Total Net Assets	<u>\$ 1,015,096</u>	<u>\$ 1,457,877</u>	<u>\$ 2,472,973</u>
Total Liabilities and Net Assets	<u>\$ 1,021,961</u>	<u>\$ 2,175,190</u>	<u>\$ 3,197,151</u>

The Village reported positive balances in net assets for both governmental and business-type activities. Net assets decreased \$51,469 for governmental activities and \$14,976 for business-type activities; therefore, the Village's overall financial position deteriorated during fiscal year 2005.

The following table reflects the change in net assets of the Village's governmental and business-type activities for the year ended February 28, 2005:

CHANGES IN NET ASSETS

	Governmental Activities	Business-type Activities	Total Primary Government
Program Revenue			
Charges for Services	\$ 46,796	\$ 126,961	\$ 173,757
Operating Grants and Contributions	42,699	0	42,699
Capital Grants and Contributions	1,099	0	1,099
General Revenue			
Property Taxes	70,152	0	70,152
State Shared Revenue	51,418	0	51,418
Other	<u>10,034</u>	<u>5,266</u>	<u>15,300</u>
Total Revenue	<u>\$ 222,198</u>	<u>\$ 132,227</u>	<u>\$ 354,425</u>
Expenses			
General Government	\$ 81,103	\$ 0	\$ 81,103
Public Safety	10,030	0	10,030
Streets and Highways	91,738	0	91,738
Culture & Recreation	2,600	0	2,600
Depreciation	34,278	0	34,278
Public Works	49,504	0	49,504
Sanitary Landfill	4,414	0	4,414
Sewer Utility	<u>0</u>	<u>147,203</u>	<u>147,203</u>
Total Expenses	<u>\$ 273,667</u>	<u>\$ 147,203</u>	<u>\$ 420,870</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (51,469)</u>	<u>\$ (14,976)</u>	<u>\$ (66,445)</u>

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 28, 2005

Governmental Activities decreased the Village's net assets by \$51,469, which accounts for 77% of the total decrease in net assets.

Revenues from governmental activities totaled \$222,198. Property tax revenue represented the largest portion of those revenues (32%), and state shared revenue represented 23% of the total.

The largest components of governmental activities' expenses were street lighting and maintenance (34%) and public works (18%). General government consists of Village Council, administration, fire protection, recreation and culture.

Business-type Activities decreased the Village's net assets by \$14,976, or 23% of the total decrease in net assets. These net assets will be used to repay the debt on the sewer plant improvements, as well as planning for future improvements in the sewer system.

Governmental Funds - The focus of the Village's governmental funds is to provide information on short-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of February 28, 2005, the Village's governmental funds reported combined ending fund balances of \$386,840. Of this total, approximately 97% was unreserved, indicating availability for continuing Village service requirements.

The General Fund is the primary operating fund of the Village. At the end of the current fiscal year, the General Fund showed a healthy fund balance of \$374,377. The other Major Governmental Funds include Major Streets and Local Streets. Of these funds, Major Streets showed a decrease in fund balance of \$17,583 for the current fiscal year.

Proprietary Funds - The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. The Village's proprietary funds consist of the Sewer Fund. Total net assets of the Sewer Fund was \$1,457,877 at February 28, 2005, a decrease of \$14,976 from the previous fiscal year.

Major Governmental Funds Budgeting and Operating Highlights

The Village did not amend the budget during the current fiscal year. Some reasons for differences between the budget adopted and actual expenditure are as follows: the Village paid for two audits in the fiscal year; the fire department purchased some new gear for new members, and other expenditures were higher than expected; and higher costs were incurred in the Major Streets Fund due to unexpected drain problems.

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 28, 2005

Capital Asset and Debt Administration

Capital assets at year-end were as follows:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Totals</u>
Land	\$ 35,000	\$ 35,062	\$ 70,062
Buildings and Improvements	164,500	0	164,500
Facilities & Mains	0	2,436,785	2,436,785
Furniture and Equipment	171,850	16,700	188,550
Vehicles	605,541	0	605,541
Less: Accumulated Depreciation	<u>(348,635)</u>	<u>(799,923)</u>	<u>(1,148,558)</u>
Total Capital Assets, net of depreciation	<u>\$ 628,256</u>	<u>\$ 1,688,624</u>	<u>\$ 2,316,880</u>

At February 28, 2005, the Village had \$690,000 in bonds outstanding, as shown below:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Totals</u>
Revenue Bonds	<u>\$ 0</u>	<u>\$ 690,000</u>	<u>\$ 690,000</u>
Total Long-Term Debt	<u>\$ 0</u>	<u>\$ 690,000</u>	<u>\$ 690,000</u>

Factors Bearing on the Village's Future

The Village expects similar levels of revenue and expenditures for the 2006 fiscal year except that State shared revenues have consistently declined in recent years, and this trend is expected to continue.

The national economic downturn and market performance continue to be a concern for Village management. We continue to depend on state revenue sharing and investment income as major funding sources for the Village. As the state cuts our revenue, we will continue to strive to cut expenditures. Recent natural disasters that effect the national economy will make this an ongoing battle. Improved monitoring of monthly revenue and expenditures will enable the Village Council to make more informed financial decisions.

Contacting the Village's Financial Management

This financial report is designed to provide a general overview of the Village of North Adams' finances. Questions or comments concerning any of the information provided in this report should be addressed to Village of North Adams, 129 W. Main Street, North Adams, Michigan 49262.

BASIC FINANCIAL STATEMENTS

VILLAGE OF NORTH ADAMS
STATEMENT OF NET ASSETS
FEBRUARY 28, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 350,997	\$ 462,311	\$ 813,308
Accounts Receivable	1,916	13,769	15,685
Taxes Receivable	7,713	0	7,713
Due from Other Governmental Units	26,057	0	26,057
Delinquent Assessments Receivable	0	10,486	10,486
Prepaid Expense	<u>7,022</u>	<u>0</u>	<u>7,022</u>
Total Current Assets	<u>\$ 393,705</u>	<u>\$ 486,566</u>	<u>\$ 880,271</u>
Noncurrent Assets			
Capital Assets			
Land	\$ 35,000	\$ 35,062	\$ 70,062
Buildings & Improvements	164,500	0	164,500
Facilities & Mains	0	2,436,785	2,436,785
Furniture & Equipment	171,850	16,700	188,550
Vehicles	605,541	0	605,541
Less: Accumulated Depreciation	<u>(348,635)</u>	<u>(799,923)</u>	<u>(1,148,558)</u>
Total Noncurrent Assets	<u>\$ 628,256</u>	<u>\$ 1,688,624</u>	<u>\$ 2,316,880</u>
Total Assets	<u>\$ 1,021,961</u>	<u>\$ 2,175,190</u>	<u>\$ 3,197,151</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 5,636	\$ 13,800	\$ 19,436
Payroll Taxes Payable	1,229	0	1,229
Interest Payable	0	13,513	13,513
Current Portion of Long-Term Debt	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 6,865</u>	<u>\$ 27,313</u>	<u>\$ 34,178</u>
Noncurrent Liabilities			
Revenue Bonds Payable	<u>\$ 0</u>	<u>\$ 690,000</u>	<u>\$ 690,000</u>
Total Liabilities	<u>\$ 6,865</u>	<u>\$ 717,313</u>	<u>\$ 724,178</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 628,256	\$ 998,624	\$ 1,626,880
Restricted for:			
Replacement	0	1,276	1,276
Improvement	0	307,000	307,000
Unrestricted	<u>386,840</u>	<u>150,977</u>	<u>537,817</u>
Total Net Assets	<u>\$ 1,015,096</u>	<u>\$ 1,457,877</u>	<u>\$ 2,472,973</u>
Total Liabilities and Net Assets	<u>\$ 1,021,961</u>	<u>\$ 2,175,190</u>	<u>\$ 3,197,151</u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Village Council	\$ 4,140	\$ 0	\$ 0	\$ 0	\$ (4,140)
Clerk	4,200	0	0	0	(4,200)
Treasurer	2,800	0	0	0	(2,800)
Contracted Services	12,205	0	0	0	(12,205)
Buildings and Grounds	12,355	0	0	0	(12,355)
Administrative Expenses	2,278	0	0	0	(2,278)
Fire Department	10,030	22,700	0	1,099	13,769
Public Works	49,504	0	0	0	(49,504)
Street Lighting and Maintenance	91,738	24,096	42,699	0	(24,943)
Sanitary Landfill	4,414	0	0	0	(4,414)
Recreation and Culture	2,600	0	0	0	(2,600)
Elections	380	0	0	0	(380)
Payroll Tax Expense	4,165	0	0	0	(4,165)
Dues and Subscriptions	417	0	0	0	(417)
Insurance - Property	25,170	0	0	0	(25,170)
Insurance - Health and Life	12,147	0	0	0	(12,147)
Miscellaneous Expense	846	0	0	0	(846)
Depreciation - Unallocated	<u>34,278</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(34,278)</u>
Total Governmental Activities	<u>\$ 273,667</u>	<u>\$ 46,796</u>	<u>\$ 42,699</u>	<u>\$ 1,099</u>	<u>\$ (183,073)</u>
Business-type Activities:					
Sewer	<u>\$ 147,203</u>	<u>\$ 126,961</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (20,242)</u>
Total Business-type Activities	<u>\$ 147,203</u>	<u>\$ 126,961</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (20,242)</u>
Total Primary Government	<u>\$ 420,870</u>	<u>\$ 173,757</u>	<u>\$ 42,699</u>	<u>\$ 1,099</u>	<u>\$ (203,315)</u>

<u>Primary Government</u>		
Governmental Activities	Business-type Activities	Total
\$ (183,073)	\$ (20,242)	\$ (203,315)

General Revenue:			
Property Taxes Levied for General Purposes	\$ 70,152	\$ 0	\$ 70,152
State Shared Revenue	51,418	0	51,418
Unrestricted Investment Income	8,687	4,110	12,797
Miscellaneous	<u>1,347</u>	<u>1,156</u>	<u>2,503</u>
Total General Revenue	\$ 131,604	\$ 5,266	\$ 136,870
Change in Net Assets	\$ (51,469)	\$ (14,976)	\$ (66,445)
Net Assets - Beginning	<u>1,066,565</u>	<u>1,472,853</u>	<u>2,539,418</u>
Net Assets - Ending	<u>\$1,015,096</u>	<u>\$ 1,457,877</u>	<u>\$2,472,973</u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS
BALANCE SHEET
GOVERNMENTAL FUNDS
FEBRUARY 28, 2005

	General	Major Streets	Local Streets	Total Governmental Funds
ASSETS				
Cash	\$ 349,593	\$ (12,367)	\$ 13,771	\$ 350,997
Taxes Receivable	7,713	0	0	7,713
Due from Other Funds	9,913	2,275	0	12,188
Due from Other Governmental Units	9,276	13,243	3,538	26,057
Prepaid Expense	<u>7,022</u>	<u>0</u>	<u>0</u>	<u>7,022</u>
Total Assets	<u>\$ 383,517</u>	<u>\$ 3,151</u>	<u>\$ 17,309</u>	<u>\$ 403,977</u>
LIABILITIES				
Accounts Payable	\$ 5,636	\$ 0	\$ 0	\$ 5,636
Due to Other Funds	2,275	0	7,997	10,272
Payroll Taxes Payable	<u>1,229</u>	<u>0</u>	<u>0</u>	<u>1,229</u>
Total Liabilities	<u>\$ 9,140</u>	<u>\$ 0</u>	<u>\$ 7,997</u>	<u>\$ 17,137</u>
FUND BALANCES				
Unreserved, reported in:				
General Fund	\$ 374,377	\$ 0	\$ 0	\$ 374,377
Special Revenue Funds	<u>0</u>	<u>3,151</u>	<u>9,312</u>	<u>12,463</u>
Total Fund Balances	<u>\$ 374,377</u>	<u>\$ 3,151</u>	<u>\$ 9,312</u>	<u>\$ 386,840</u>
Total Liabilities and Fund Balances	<u>\$ 383,517</u>	<u>\$ 3,151</u>	<u>\$ 17,309</u>	<u>\$ 403,977</u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
February 28, 2005

Fund Balances - total governmental funds	\$ 386,840
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	976,891
Deduct: Accumulated depreciation	<u>(348,635)</u>
Net assets of governmental activities	<u>\$ 1,015,096</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005

	General	Major Streets	Local Streets	Total Governmental Funds
REVENUE				
Property Taxes	\$ 70,152	\$ 0	\$ 0	\$ 70,152
State Shared Revenue	51,418	33,703	8,996	94,117
Grants	1,099	0	0	1,099
Fire Service	22,700	0	0	22,700
Rents and Royalties	24,096	0	0	24,096
Interest	8,438	187	62	8,687
Miscellaneous Income	<u>1,347</u>	<u>0</u>	<u>0</u>	<u>1,347</u>
Total Revenue	<u>\$ 179,250</u>	<u>\$ 33,890</u>	<u>\$ 9,058</u>	<u>\$ 222,198</u>
EXPENDITURES				
General Government				
Village Council	\$ 4,140	\$ 0	\$ 0	\$ 4,140
Clerk	4,200	0	0	4,200
Treasurer	2,800	0	0	2,800
Contracted Services	12,205	0	0	12,205
Building and Grounds	12,355	0	0	12,355
Administrative Expenses	2,278	0	0	2,278
Fire Department	10,030	0	0	10,030
Public Works	49,504	0	0	49,504
Street Lighting and Maintenance	34,385	51,473	5,880	91,738
Sanitary Landfill	4,414	0	0	4,414
Recreation and Culture	2,600	0	0	2,600
Elections	380	0	0	380
Payroll Tax Expense	4,165	0	0	4,165
Dues and Subscriptions	417	0	0	417
Insurance - Property	25,170	0	0	25,170
Insurance - Health and Life	12,147	0	0	12,147
Capital Outlay	163,041	0	0	163,041
Miscellaneous Expense	<u>846</u>	<u>0</u>	<u>0</u>	<u>846</u>
Total Expenditures	<u>\$ 345,077</u>	<u>\$ 51,473</u>	<u>\$ 5,880</u>	<u>\$ 402,430</u>
REVENUE OVER (UNDER)				
EXPENDITURES	<u>\$(165,827)</u>	<u>\$ (17,583)</u>	<u>\$ 3,178</u>	<u>\$(180,232)</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ 0	\$ 0	\$ 0	\$ 0
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing				
Sources (Uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCES	<u>\$(165,827)</u>	<u>\$ (17,583)</u>	<u>\$ 3,178</u>	<u>\$(180,232)</u>
FUND BALANCES - Beginning	<u>540,204</u>	<u>20,734</u>	<u>6,134</u>	<u>567,072</u>
FUND BALANCES - Ending	<u>\$ 374,377</u>	<u>\$ 3,151</u>	<u>\$ 9,312</u>	<u>\$ 386,840</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
Reconciliation of Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended February 28, 2005

Net changes in fund balances - total governmental funds	\$(180,232)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital outlay	163,041
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Deduct: Depreciation expense	<u>(34,278)</u>
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Change in net assets of governmental activities	<u>\$ (51,469)</u>
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The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
FEBRUARY 28, 2005

Enterprise Funds
Sewer

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 153,992
Accounts Receivable	13,769
Delinquent Assessments Receivable	<u>10,486</u>
Total Current Assets	<u>\$ 178,247</u>

Restricted Assets

Debt Retirement Account	\$ 43
Improvement Account	307,000
Replacement Accounts	<u>1,276</u>
Total Restricted Assets	<u>\$ 308,319</u>

Noncurrent Assets

Capital Assets - Not Depreciated	\$ 35,062
Other Capital Assets, Net of Accumulated Depreciation	<u>1,653,562</u>
Total Noncurrent Assets	<u>\$ 1,688,624</u>

Total Assets	<u><u>\$ 2,175,190</u></u>
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LIABILITIES

Current Liabilities

Accounts Payable	\$ 11,884
Due to Other Funds	<u>1,916</u>
Total Current Liabilities	<u>\$ 13,800</u>

Liabilities Payable from Restricted Assets

Accrued Interest Payable	\$ 13,513
Revenue Bonds - Current	<u>0</u>
Total Liabilities Payable from Restricted Assets	<u>\$ 13,513</u>

Noncurrent Liabilities

Revenue Bonds Payable	<u>\$ 690,000</u>
Total Noncurrent Liabilities	<u>\$ 690,000</u>

Total Liabilities	<u>\$ 717,313</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 998,624
Restricted for Improvements	307,000
Restricted for Replacement	1,276
Unrestricted	<u>150,977</u>

Total Net Assets	<u>\$ 1,457,877</u>
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Total Liabilities and Net Assets	<u><u>\$ 2,175,190</u></u>
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See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED FEBRUARY 28, 2005

	<u>Enterprise Func.</u> <u>Sewer</u>
OPERATING REVENUE	
Sales	\$ 81,831
Connections Fees	45,130
Other	<u>1,156</u>
Total Operating Revenue	<u>\$ 128,117</u>
OPERATING EXPENSES	
Repairs and Maintenance	\$ 7,954
Wages	9,227
Contracted Services	540
Utilities	9,118
Legal and Accounting Fees	3,431
Dues and Subscriptions	194
Depreciation	71,451
Payroll Taxes	706
Miscellaneous Expense	<u>2,429</u>
Total Operating Expenses	<u>\$ 105,050</u>
OPERATING INCOME (LOSS)	<u>\$ 23,067</u>
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	\$ 4,110
Interest Expense	<u>(42,153)</u>
Total Non-operating Revenue (Expense)	<u>\$ (38,043)</u>
Income (Loss) Before Contributions and Transfers	<u>\$ (14,976)</u>
Transfers From Other Funds	\$ 0
Transfers To Other Funds	<u>0</u>
CHANGE IN NET ASSETS	\$ (14,976)
NET ASSETS - Beginning	<u>1,472,853</u>
NET ASSETS - Ending	<u><u>\$1,457,877</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005

	<u>Enterprise Fund</u> <u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 126,906
Cash payments to suppliers for goods and services	(23,310)
Other operating revenue	<u>1,156</u>
Net cash provided (used) by operating activities	<u>\$ 104,752</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	\$ (23,895)
Principal paid on bonds	(60,000)
Interest paid on bonds	<u>(42,153)</u>
Net cash provided (used) by capital and related financing activities	<u>\$(126,048)</u>
CASH FLOWS FORM INVESTING ACTIVITIES	
Investment income	\$ 4,110
Net cash provided (used) by investment activities	<u>\$ 4,110</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (17,186)
CASH AND CASH EQUIVALENTS - Beginning	<u>479,497</u>
CASH AND CASH EQUIVALENTS - Ending	<u>\$ 462,311</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 23,067
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	\$ 71,451
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	201
(Increase) decrease in delinquent assessments receivable	(257)
Increase (decrease) in accounts payable	10,765
Increase (decrease) in due to other funds	700
Increase (decrease) in liabilities payable from restricted assets	<u>(1,175)</u>
Total adjustments	<u>\$ 81,685</u>
Net cash provided (used) by operating activities	<u>\$ 104,752</u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of North Adams comprises a population of approximately 514 residents in Hillsdale County, Michigan. It is governed by a seven-member council with a president as its head. As required by generally accepted accounting principles, these financial statements present the Village's primary government.

The accounting policies of Village of North Adams conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). In June, 1999, the GASB approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.

- Financial statements prepared using full accrual accounting for all of the Village's activities, including fixed assets (buildings, equipment, vehicles, etc.) and infrastructure (roads, bridges, etc.)

- A change in the fund financial statements to focus on major funds.

The Village has elected to implement the provisions of the Statement in the current year; therefore, these and other changes are reflected in the accompanying financial statements and notes to the financial statements.

The following is a summary of significant accounting policies used by Village of North Adams:

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display financial information about the Village as a whole, excluding fiduciary activities. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by property taxes and Village general revenue, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Village's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, State Revenue Sharing, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Village.

Fund Financial Statements - Fund financial statements report detailed information about the Village. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting

The financial statements of the Village are prepared in accordance with generally accepted accounting principles (GAAP). The Village applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Village does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Village departments. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, property taxes, State revenue sharing, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Operating income reported in proprietary fund financial statements includes revenue and expenses related to the primary, continuing operations of the fund. Principal operating revenue for proprietary funds is charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenue and expenses are classified as non-operating in the financial statements.

Financial Statement Presentation

The Village uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Village functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Village reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Revenue Funds - used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes (i.e. Major Streets, Local Streets, Fire Fund, Cemetery Fund, and Park Fund).

The Village reports the following major enterprise fund:

Sewer Utilities Fund - accounts for the operating activities of the Village's sewer utilities services.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Proprietary fund capital assets are also reported in their respective fund and component unit financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Village maintains a capitalization threshold of \$1,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & Improvements	20 - 50 years
Furniture & Equipment	5 - 20 years
Vehicles	8 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

Long-Term Obligations - In the government-wide financial statements, all payables, accrued liabilities and long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt retirement expenditures.

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Village Council at the line-item level. Any budgetary modifications may only be made by resolution of the Village Council. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to February 28, the Village Council proposes an operating budget for the fiscal year commencing on March 1.
- 2) A public hearing is conducted during February to obtain taxpayer comments.
- 3) Prior to February 28, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the Village, transfer of appropriations may be made by the authorization of the Village Council.
- 5) The Village Council is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

During the year ended February 28, 2005, the Village incurred expenditures in certain budgetary funds that were in excess of the amount appropriated. These variances are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Contracted Services	\$ 7,500	\$ 12,205	\$ 4,705
Administrative Expenses	1,500	2,278	778
Fire Department	32,000	49,504	17,504
Dues and Subscriptions	400	417	17
Major Streets Fund			
Routine Maintenance	7,900	11,876	3,976
Winter Maintenance	26,500	39,597	13,097

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS

Following are the components of the Village's bank deposits at February 28, 2005:

Checking and savings accounts	\$ 640,144
Certificates of Deposit	<u>173,164</u>
	<u>\$ 813,308</u>

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation (FDIC). At February 28, 2005, the carrying amount of the Village's deposits was \$813,308 and the bank balance was \$825,791. Of the bank balance, \$209,550 was covered by federal depository insurance and \$616,241 was uninsured.

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. As of February 28, 2005, the Village's deposits are in accordance with statutory authority.

NOTE 4 - RECEIVABLES

Receivables at February 28, 2005, consist of State revenue sharing, utility and other receivables. All receivables are considered collectible in full due to the ability to lien for the nonpayment of utility bills and the stable condition of State programs.

A summary of the principal items of receivables follows:

	General Fund	Major Street	Local Street	Proprietary Funds	Total
State Revenue Sharing	\$ 9,276	\$ 13,243	\$ 3,538	\$ 0	\$ 26,057
Utility Customers	0	0	0	24,255	24,255
Other Receivables	<u>7,713</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,713</u>
Total	<u>\$ 16,989</u>	<u>\$ 13,243</u>	<u>\$ 3,538</u>	<u>\$ 24,255</u>	<u>\$ 58,025</u>

NOTE 5 - RESTRICTED ASSETS

Certain assets in the Sewer Fund are set aside and classified as restricted on the balance sheet because their use is limited by applicable bond covenants. The replacement and improvement accounts are used to segregate resources accumulated for further improvements, enlargements, and extensions of the project. The debt retirement account is used to account for resources to be used solely for the purpose of paying principal and interest on the bond when due.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended February 28, 2005, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Governmental Activities</u>				
Capital assets not being depreciated				
Land	\$ 35,000	\$ 0	\$ 0	\$ 35,000
Capital assets being depreciated				
Buildings & Improvements	\$ 164,500	\$ 0	\$ 0	\$ 164,500
Furniture & Equipment	171,850	0	0	171,850
Vehicles	442,500	163,041	0	605,541
Less accumulated depreciation	(314,357)	(34,278)	0	(348,635)
Total capital assets being depreciated, net	\$ 464,493	\$ 128,763	\$ 0	\$ 593,256
Governmental Activities Total capital assets, net	\$ 499,493	\$ 128,763	\$ 0	\$ 628,256
<u>Business-Type Activities</u>				
Capital assets not being depreciated				
Land	\$ 35,062	\$ 0	\$ 0	\$ 35,062
Capital assets being depreciated				
Facilities & Mains	\$ 2,412,890	\$ 23,895	\$ 0	\$ 2,436,785
Machinery and Equipment	16,700	0	0	16,700
Less accumulated depreciation	(728,472)	(71,451)	0	(799,923)
Total capital assets being depreciated, net	\$ 1,701,118	\$ (47,556)	\$ 0	\$ 1,653,562
Business-Type Activities Total capital assets, net	\$ 1,736,180	\$ (47,556)	\$ 0	\$ 1,688,624
PRIMARY GOVERNMENT				
Total capital assets, net	\$ 2,235,673	\$ 81,207	\$ 0	\$ 2,316,880

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances at February 28, 2005, is as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General Fund	\$ 7,997	Local Streets	\$ 7,997
General Fund	1,916	Sewer Fund	1,916
Major Streets	2,275	General Fund	2,275
	<u>\$ 12,188</u>		<u>\$ 12,188</u>

The Local Streets Fund owes the General Fund for equipment rentals. The Sewer Fund owes the General Fund for payroll taxes on Sewer Fund wages paid by the General Fund. The amount due from General Fund to Major Streets is for an outstanding transfer net of equipment rentals due at February 28, 2005.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005

NOTE 8 - LONG-TERM DEBT

Revenue Bonds - The Village has a bond issue with Farmers Home Administration, an agency of the United States Department of Natural Resources. This is a revenue bond issue, whereby revenue derived from the utility system is used to pay the debt service.

The following is a summary of changes in long-term debt for the year ended February 28, 2005:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Business-type Activities</i>				
Revenue Bonds - Sewer Fund	\$ 750,000	\$ 0	\$ 60,000	\$ 690,000

Annual debt service requirements to maturity as of February 28, 2005, are as follows:

Sewer Fund - \$ 1,192,000 Revenue Bond Issue, interest rate 5.875%

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>February 28</u>			
2006	\$ 0	\$ 0	\$ 0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010	40,000	39,509	79,509
2011-2015	250,000	142,469	392,469
2016-2020	280,000	85,188	365,188
2021-2022	<u>120,000</u>	<u>10,575</u>	<u>130,575</u>
Totals	<u>\$ 690,000</u>	<u>\$ 277,741</u>	<u>\$ 967,741</u>

NOTE 9 - PROPERTY TAXES

Real estate and personal property taxes are recorded as revenue in amounts equal to the total taxes levied. The total levy for 2004 was 1.11 mills, all allocated to General Fund. The 2004 total state taxable value was approximately \$6,329,000. Village properties are assessed as of July 31 (the lien date) - taxes levied July 1 of the succeeding year and are due without interest to September 15. After the final collection date, unpaid real property taxes are added to the county delinquent tax rolls. Personal property taxes unpaid continue to be collected by the Village Treasurer.

NOTE 10 - SEGMENT INFORMATION

The Village issues separate revenue bonds to finance its sewer department. The fund financial statements report major funds with revenue - supported debt for the sewer fund. Services provided by this fund are described in Note 1.

NOTE 11 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for each of these areas of risk. There have been no significant reductions in insurance coverages, and settled claims have not exceeded the amount of insurance coverage for the current or the three prior years.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005

NOTE 12 - UNEMPLOYMENT TAXES

The Village is a reimbursing employer to the Michigan Unemployment Insurance Agency and, as such, is responsible to pay the Agency for those benefits paid and charged to its account. As of February 28, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

NOTE 13 - RESTATEMENTS

As of and for the year ended February 28, 2005, the Village implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*

No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*

No. 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues - An Amendment of GASB No. 33*

No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*

No. 38 - *Certain Financial Statement Disclosures*

Interpretations

No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

As a result of implementing these pronouncements for the year ended February 28, 2005, the following restatements were made to the beginning fund balance and net asset accounts:

Fund Balances of General and Special Revenue Funds as of February 29, 2004	\$ 567,072
Add: governmental capital assets as of February 29, 2004	813,850
Deduct: accumulated depreciation as of February 29, 2004, on governmental assets	<u>(314,357)</u>
Governmental net assets, restated, as of February 29, 2004	<u>\$ 1,066,565</u>

NOTE 14 - RELATED PARTY TRANSACTIONS

It should be noted that George Russ, a member of the Village Council, received \$22,384 for services rendered to the Village as a Streets and Wastewater System employee.

SUPPLEMENTARY INFORMATION

VILLAGE OF NORTH ADAMS
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2005

	<u>Budget Amounts</u>			Actual Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
REVENUE				
Property Taxes	\$ 70,000	\$ 70,000	\$ 70,152	\$ 152
State Shared Revenue	54,000	54,000	51,418	(2,582)
Grants	0	0	1,099	1,099
Fire Service	34,000	34,000	22,700	(11,300)
Rents & Royalties	40,295	40,295	24,096	(16,199)
Interest	0	0	8,438	8,438
Miscellaneous	<u>100</u>	<u>100</u>	<u>1,347</u>	<u>1,247</u>
Total Revenue	<u>\$ 198,395</u>	<u>\$ 198,395</u>	<u>\$ 179,250</u>	<u>\$ (19,145)</u>
EXPENDITURES				
Village Council	\$ 7,000	\$ 7,000	\$ 4,140	\$ (2,860)
Clerk	4,200	4,200	4,200	0
Treasurer	2,800	2,800	2,800	0
Contracted Services	7,500	7,500	12,205	4,705
Buildings & Grounds	17,500	17,500	12,355	(5,145)
Administrative Expenses	1,500	1,500	2,278	778
Fire Department	46,000	46,000	10,030	(35,970)
Public Works	32,000	32,000	49,504	17,504
Street Lighting & Maintenance	35,500	35,500	34,385	(1,115)
Sanitary Landfill	5,000	5,000	4,414	(586)
Recreation & Culture	7,800	7,800	2,600	(5,200)
Elections	1,000	1,000	380	(620)
Payroll Tax Expense	5,500	5,500	4,165	(1,335)
Dues & Subscriptions	400	400	417	17
Insurance - Property	30,000	30,000	25,170	(4,830)
Insurance - Health & Life	17,500	17,500	12,147	(5,353)
Capital Outlay	191,450	191,450	163,041	(28,409)
Miscellaneous	<u>950</u>	<u>950</u>	<u>846</u>	<u>(104)</u>
Total Expenditures	<u>\$ 413,600</u>	<u>\$ 413,600</u>	<u>\$ 345,077</u>	<u>\$ (68,523)</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$(215,205)</u>	<u>\$(215,205)</u>	<u>\$(165,827)</u>	<u>\$ 49,378</u>
FUND BALANCES - Beginning	<u>540,204</u>	<u>540,204</u>	<u>540,204</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 324,999</u>	<u>\$ 324,999</u>	<u>\$ 374,377</u>	<u>\$ 49,378</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREETS FUND
FOR THE YEAR ENDED FEBRUARY 28, 2005

	<u>Budget Amounts</u>			Actual Over (Under) <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUE				
State Shared Revenue	\$ 31,500	\$ 31,500	\$ 33,703	\$ 2,203
Interest	<u>750</u>	<u>750</u>	<u>187</u>	<u>(563)</u>
Total Revenue	<u>\$ 32,250</u>	<u>\$ 32,250</u>	<u>\$ 33,890</u>	<u>\$ 1,640</u>
EXPENDITURES				
Routine Maintenance	\$ 7,900	\$ 7,900	\$ 11,876	\$ 3,976
Winter Maintenance	<u>26,500</u>	<u>26,500</u>	<u>39,597</u>	<u>13,097</u>
Total Expenditures	<u>\$ 34,400</u>	<u>\$ 34,400</u>	<u>\$ 51,473</u>	<u>\$ 17,073</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ (2,150)	\$ (2,150)	\$ (17,583)	\$ (15,433)
FUND BALANCES - Beginning	<u>20,734</u>	<u>20,734</u>	<u>20,734</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 18,584</u>	<u>\$ 18,584</u>	<u>\$ 3,151</u>	<u>\$ (15,433)</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREETS FUND
FOR THE YEAR ENDED FEBRUARY 28, 2005

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State Shared Revenue	\$ 7,500	\$ 7,500	\$ 8,996	\$ 1,496
Interest	<u>300</u>	<u>300</u>	<u>62</u>	<u>(238)</u>
Total Revenue	<u>\$ 7,800</u>	<u>\$ 7,800</u>	<u>\$ 9,058</u>	<u>\$ 1,258</u>
EXPENDITURES				
Routine Maintenance	\$ 4,300	\$ 4,300	\$ 2,991	\$ (1,309)
Winter Maintenance	<u>4,300</u>	<u>4,300</u>	<u>2,889</u>	<u>(1,411)</u>
Total Expenditures	<u>\$ 8,600</u>	<u>\$ 8,600</u>	<u>\$ 5,880</u>	<u>\$ (2,720)</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ (800)	\$ (800)	\$ 3,178	\$ 3,978
FUND BALANCES - Beginning	<u>6,134</u>	<u>6,134</u>	<u>6,134</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 5,334</u>	<u>\$ 5,334</u>	<u>\$ 9,312</u>	<u>\$ 3,978</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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P.O. BOX 215
JONESVILLE, MI 49250

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Village Council
Village of North Adams
North Adams, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Village of North Adams as of and for the year ended February 28, 2005, which collectively comprise Village of North Adams's basic financial statements and have issued our report thereon dated October 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of North Adams's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of North Adams's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bailey, Hodshire & Company PC

Jonesville, Michigan

October 10, 2005

Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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October 10, 2005

To the President
Members of the Village Council
Village of North Adams
North Adams, Mi 49262

As a result of our audit of the financial statements of Village of North Adams as of and for the year ended February 28, 2005, we would like to make the following comments and recommendations:

1. The State Uniform Chart of Accounts should be better utilized to minimize use of the "miscellaneous" column for expenditures. The original classification of expenditures into proper budget categories will lessen accounting and audit time. Using separate ledgers for Cash Disbursements and Cash Receipts would allow room to break out more types of expenditures.
2. In 1997, PA 196 (amendment to PA 1943) Act 20 was passed which requires that an investment policy be adopted by every local government unit in Michigan. The policy was to be adopted by your Village Council on or before September 30, 1998. Since your Council has not acted to adopt such a policy, we, again, recommend that one be developed and adopted during the current fiscal year. We have a sample of the State-suggested format in our office.
3. Monthly reports should be given to the Council that show monthly and year-to-date expenditures as compared to the adopted budget so amendments can be made as necessary.
4. Forms 1099 need to be filed for legal and other services in excess of \$600 rendered to the Village.

If we can be of assistance regarding these recommendations, please contact our office.

Respectfully,

Bailey, Hodshire & Company PC
Bailey, Hodshire & Company, P.C.
Certified Public Accountants